

SENATE FISCAL AGENCY MEMORANDUM

DATE: May 23, 2003

TO: Members of the Senate

FROM: Gary S. Olson, Director

RE: Federal Aid to the States

On May 23, 2003, the United States Congress gave its final approval to H.R. 2, the Jobs and Growth Tax Relief Reconciliation Act of 2003 (Act). President Bush has indicated that he will sign this legislation into law sometime over the Memorial Day weekend. The Act amends the Internal Revenue Service Code to provide for a significant number of changes in Federal tax policy. These Federal tax policy changes are not expected to have an impact on state revenue collections. The Act also contains a section entitled Temporary State Fiscal Relief. This memorandum will briefly explain the impact on the Michigan State budget of this Temporary State Fiscal Relief portion of the Act.

The Act contains a total of \$20.0 billion of fiscal relief for the states. This \$20.0 billion is divided into two separate types of temporary relief each amounting to \$10.0 billion. The first \$10.0 billion of temporary state fiscal relief involves additional Federal spending on the Medicaid program and the second \$10.0 billion is designated as temporary Federal aid to assist states in providing government services.

Temporary Medicaid Funding

The \$10.0 billion of temporary Medicaid funding contained in the Act is split between two different purposes. The first is a hold harmless provision for states whose Medicaid match rate in FY 2002-03 or FY 2003-04 declined below the Medicaid match rate utilized by the state in the prior fiscal year. Due to the fact that Michigan's Medicaid match rate declined in FY 2002-03, Michigan will receive \$36.0 million from this provision in FY 2002-03. Michigan is not eligible for this hold harmless relief in FY 2003-04 as the Michigan Medicaid match rate has increased in FY 2003-04.

The second temporary Medicaid funding provision in the Act is a temporary 2.95 percentage point increase in all state Medicaid match rates for FY 2002-03 and FY 2003-04. This change will result in a \$112.9 million increase in Medicaid funding in FY 2002-03 and a \$168.4 million increase in Medicaid funding for Michigan in FY 2003-04. In total the Act will provide Michigan with a \$148.9 million increase in Federal Medicaid funding in FY 2002-03 and a \$168.4 million increase in Federal Medicaid funding in FY 2003-04.

There are very limited restrictions on the states as to the use of these increased Federal Medicaid funds. They must be spent on the state Medicaid program and the states are not allowed to change any Medicaid eligibility requirements after September 2, 2003, as a condition of receiving these funds. These Federal restrictions should have no impact on Michigan's ability to utilize this increase in Federal Medicaid funding.

Temporary Federal Aid to Assist States in Providing Government Services

The \$10.0 billion of temporary Federal aid to assist states in providing government services is divided equally between FY 2002-03 and FY 2003-04. These funds are distributed to states on a per-capita basis utilizing the 2000 census as the basis for the per-capita payments. Michigan will be receiving \$169.0 million in both FY 2002-03 and FY 2003-04 as a result of these payments. These Federal payments to the states must be utilized by the states for one of two purposes. The first is the provision of essential government services and the second is to cover any costs to the states of Federal governmental mandates not fully funded by the Federal government. These provisions mean that this \$338.0 million of new Federal aid to Michigan is in reality unrestricted funding.

Table 1 provides a summary of the total level of additional Federal funding Michigan will receive in FY 2002-03 and FY 2003-04 under provisions of the Act. Federal funding will total \$655.3 million, with \$317.9 million to be received in FY 2002-03 and \$337.4 million to be received in FY 2003-04.

If you have any questions on this issue, please call my office at 373-5300.

Table 1

Federal Funding to Michigan in the Jobs and Growth Tax Relief Reconciliation Act of 2003 (millions of dollars)			
	FY 2002-03	FY 2003-04	Total
Medicaid Hold Harmless	\$36.0	\$0.0	\$36.0
Medicaid Match Rate Increase	\$112.9	\$168.4	\$281.3
Unrestricted Federal Aid	\$169.0	\$169.0	\$338.0
Total Federal Aid	\$317.9	\$337.4	\$655.3

/kjh